

Legislative Audit Division

State of Montana



Report to the Legislature

November 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Board of Public Education

This report contains no recommendations to the board and contains an unqualified opinion on the financial schedules.

**Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

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Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education for the two fiscal years ended June 30, 1996. The board's written response is included in the back of our audit report.

We thank the chairman of the board and the board's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Board of Public Education

Members of the audit staff involved in this audit were Brenda Bokovoy, Wayne Guazzo, Cindy S. Jorgenson, and Emlyn Neuman-Javornik.

Table of Contents

| | | |
|--|---|-----|
| | Elected, Appointed, and Administrative Officials | ii |
| | Report Summary | iii |
| Introduction | Introduction | 1 |
| | Background | 1 |
| Prior Audit Recommendations | Prior Audit Recommendations | 3 |
| Independent Auditor's Report & Agency Financial Schedules | Independent Auditor's Report | A-3 |
| | Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1996 | A-5 |
| | Schedule of Total Program Expenditures by Object & Fund for the Fiscal Year Ended June 30, 1996 | A-6 |
| | Schedule of Total Program Expenditures by Object & Fund for the Fiscal Year Ended June 30, 1995 | A-7 |
| | Notes to the Financial Schedules | A-9 |
| Agency Response | Montana Board of Public Education | B-3 |

Elected, Appointed, and Administrative Officials

Board of Public Education

Mark Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

Dr. Richard Crofts, Commissioner of Higher Education*

| | | Term <u>Expires</u> |
|---------------------------------------|------------------|------------------------|
| Wilbur Anderson, Chairperson | Big Fork | 1999 |
| Storrs Bishop, Vice Chairperson | Ennis | 2003 |
| Sarah Listerud | Wolf Point | 1998 |
| Kirk Miller | Havre | 2002 |
| Ron Fernelius | West Yellowstone | 1997 |
| Barbara Keim | Billings | 2000 |
| Joyce Silverthorne | Dixon | 2001 |
| Erin Pasha, Student Representative | Highwood | 1997 |

*ex officio members

Administrative Officials

Wayne Buchanan, Ph.D., Executive Secretary

Report Summary

Board of Public Education

This financial compliance audit report contains the results of our audit of the Board of Public Education for the two fiscal years ended June 30, 1996.

There was one prior audit recommendation directed to the board. The board implemented this recommendation. This audit report contains no recommendations directed to the board .

We issued an unqualified opinion on the financial schedules contained in the audit report. This means the reader may rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

Introduction

Introduction

We performed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 1996. The audit objectives were to:

1. Determine if the board complied with applicable state laws and regulations.
2. Make recommendations for improvement in management and internal controls of the board's operations.
3. Determine if the board implemented prior audit recommendations.
4. Determine if the board's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1996.

This report contains no recommendations to the board. Concerns deemed not to have a significant effect on the successful operations of the board have been discussed with management.

Background

The Montana Board of Public Education was created by Article X, Section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. Members are appointed for seven-year overlapping terms. A student, selected annually by the Montana Association of Student Councils, also sits as a non-voting member of the board. The board operates an office in Helena with four full-time employees.

The board exercises general supervision over the public school system. The board's statutory responsibilities include establishing policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards and regulations, student assessment, school transportation, high school equivalency certifications, gifted and talented programs, and the designation of school days and hours.

The Board of Education consists of the Board of Public Education and the Board of Regents. The Board of Education is responsible

Introduction

for planning, coordinating and evaluating the state's educational system.

In 1987, the legislature created the Certification Standards and Practices Advisory Council. The council consists of seven members appointed by the Board of Public Education. It is the responsibility of the council to study and make recommendations to the board in the following areas: teacher, administrator and specialist certification standards; teacher education programs; standards of professional practices and ethical conduct; and policies relating to the denial, suspension, and revocation of teaching certificates and the appeals process.

The Board of Public Education is responsible for the general supervision of the Montana School for the Deaf and the Blind. At the request of the board, the School for the Deaf and the Blind was audited separately and the report is issued under separate cover.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the board's financial-compliance audit for the two fiscal years ended June 30, 1994. The report contained one recommendation still applicable to the board. The board implemented the recommendation.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Board of Public Education (board) for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-11. The information contained in these schedules is the responsibility of the board's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the board's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Public Education for the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

August 19, 1996

MONTANA BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

| | <u>General Fund</u> | <u>Special Revenue Funds</u> |
|-------------------------------|-------------------------|--------------------------------------|
| FUND BALANCE: July 1, 1994 | \$ <u>0</u> | \$ <u>98,273</u> |
| ADDITIONS | | |
| <u>Fiscal Year 1994-95</u> | | |
| Cash Transfers In | | 161,449 |
| Support From State of Montana | 111,776 | |
| <u>Fiscal Year 1995-96</u> | | |
| Cash Transfers In | | 164,551 |
| Support From State of Montana | <u>117,269</u> | |
| Total Additions | <u>229,045</u> | <u>326,000</u> |
| REDUCTIONS | | |
| <u>Fiscal Year 1994-95</u> | | |
| Budgeted Expenditures | 111,776 | 171,129 |
| <u>Fiscal Year 1995-96</u> | | |
| Budgeted Expenditures | <u>117,269</u> | <u>130,423</u> |
| Total Reductions | <u>229,045</u> | <u>301,552</u> |
| FUND BALANCE: June 30, 1996 | \$ <u><u>0</u></u> | \$ <u><u>122,721</u></u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL PROGRAM EXPENDITURES BY OBJECT & FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

| | <u>Administration</u> | <u>Advisory Council</u> | <u>Total</u> |
|---|-----------------------|-----------------------------|-------------------|
| PROGRAM EXPENDITURES BY OBJECT | | | |
| Personal Services | | | |
| Salaries | \$ 70,336 | \$ 45,216 | \$ 115,552 |
| Other Compensation | 3,500 | 400 | 3,900 |
| Employee Benefits | 16,574 | 11,965 | 28,539 |
| Total | <u>90,410</u> | <u>57,581</u> | <u>147,991</u> |
| Operating Expenses | | | |
| Services | 6,939 | 29,759 | 36,698 |
| Supplies & Materials | 3,511 | 5,418 | 8,929 |
| Communications | 1,133 | 1,273 | 2,406 |
| Travel | 12,319 | 11,098 | 23,417 |
| Rent | 6,158 | 5,788 | 11,946 |
| Repair & Maintenance | 6,022 | 3,070 | 9,092 |
| Other Expenses | 813 | 1,453 | 2,266 |
| Total | <u>36,895</u> | <u>57,859</u> | <u>94,754</u> |
| Equipment and Intangible Assets | | | |
| Equipment | | 4,947 | 4,947 |
| Total | | <u>4,947</u> | <u>4,947</u> |
| Total Program Expenditures | <u>\$ 127,305</u> | <u>\$ 120,387</u> | <u>\$ 247,692</u> |
| PROGRAM EXPENDITURES BY FUND | | | |
| General Fund | \$ 117,269 | | \$ 117,269 |
| Special Revenue Fund | 10,036 | \$ 120,387 | 130,423 |
| Total Program Expenditures | <u>127,305</u> | <u>120,387</u> | <u>247,692</u> |
| Budget Authority | 128,195 | 164,559 | 292,754 |
| Unspent Budget Authority | <u>\$ 890</u> | <u>\$ 44,172</u> | <u>\$ 45,062</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | |
| General Fund | \$ 890 | | \$ 890 |
| Special Revenue Fund | | \$ 44,172 | 44,172 |
| Unspent Budget Authority | <u>\$ 890</u> | <u>\$ 44,172</u> | <u>\$ 45,062</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL PROGRAM EXPENDITURES BY OBJECT & FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

| | <u>Administration</u> | <u>Advisory Council</u> | <u>Total</u> |
|----------------------------------|-----------------------|-----------------------------|-------------------|
| PROGRAM EXPENDITURES BY OBJECT | | | |
| Personal Services | | | |
| Salaries | \$ 69,113 | \$ 46,424 | \$ 115,537 |
| Other Compensation | 3,875 | 575 | 4,450 |
| Employee Benefits | 16,628 | 12,695 | 29,323 |
| Total | <u>89,616</u> | <u>59,694</u> | <u>149,310</u> |
| Operating Expenses | | | |
| Services | 10,494 | 80,151 | 90,645 |
| Supplies & Materials | 1,802 | 3,368 | 5,170 |
| Communications | 2,258 | 2,378 | 4,636 |
| Travel | 11,380 | 12,851 | 24,231 |
| Other Expenses | 218 | 2,106 | 2,324 |
| Total | <u>26,152</u> | <u>100,854</u> | <u>127,006</u> |
| Equipment and Intangible Assets | | | |
| Equipment | 1,350 | 5,239 | 6,589 |
| Total | <u>1,350</u> | <u>5,239</u> | <u>6,589</u> |
| Total Program Expenditures | <u>\$ 117,118</u> | <u>\$ 165,787</u> | <u>\$ 282,905</u> |
| PROGRAM EXPENDITURES BY FUND | | | |
| General Fund | \$ 111,776 | | \$ 111,776 |
| Special Revenue Fund | 5,342 | \$ 165,787 | 171,129 |
| Total Program Expenditures | <u>117,118</u> | <u>165,787</u> | <u>282,905</u> |
| Budget Authority | 121,553 | 165,995 | 287,548 |
| Unspent Budget Authority | <u>\$ 4,435</u> | <u>\$ 208</u> | <u>\$ 4,643</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | |
| General Fund | \$ 228 | | \$ 228 |
| Special Revenue Fund | 4,207 | \$ 208 | 4,415 |
| Unspent Budget Authority | <u>\$ 4,435</u> | <u>\$ 208</u> | <u>\$ 4,643</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Board of Public Education (board) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the board records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the board incurs the related liability and it is measurable.

State accounting policy also requires the board to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the board received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. For audit reports issued after July 1, 1996 the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The schedules now include nonbudgeted revenue and expenditure activity and prior year revenue and expenditure adjustments for all financial schedules presented. In addition, financial activity for agency funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balance and Property Held in Trust.

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The board uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The board's Special Revenue Fund includes the Certification Standards and Practices Advisory Council Fund and the Research Fund. Refer to note 6, Cash Transfers In, for additional information related to license certification.

- 2. Annual and Sick Leave**

Employees at the board accumulate both annual and sick leave. The board pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. The board absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995 and June 30, 1996, the board had a liability of \$13,933 and \$21,250, respectively.
- 3. Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System and the Teachers' Retirement System. The board's contribution to the two retirement systems was \$8,115 in fiscal year 1994-95 and \$8,126 in fiscal year 1995-96.
- 4. General Fund Balance**

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.
- 5. Foundation**

The Montana School for the Deaf and the Blind Foundation, Inc. (foundation) was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation performs duties for the school under a contract with the board and files reports with the board demonstrating contract fulfillment. The board appoints the directors of the foundation. At least one director of the foundation is a member of the board. The superintendent of the school is the executive director for the foundation.

Notes to the Financial Schedules

The foundation is to receive, hold, manage, use, and dispose of real and personal property given to the board or to the state of Montana by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest and income thereof are to be used for the benefit of the Montana School for the Deaf and the Blind. It is the intent of the foundation that its gifts to the school be used to supplement taxpayer funds. The foundation activity is not reflected on the accompanying financial schedules. The foundation reported it expended \$122,864 in support of the school in fiscal year 1994-95 and \$235,804 in fiscal year 1995-96.

6. Cash Transfers In

The board receives teaching certification fees paid by teachers for license certification or recertification. This money is initially collected and recorded as revenue by the Office of Public Instruction and then the cash is transferred to the board. To avoid recording the same revenue twice on the state's accounting records, a cash transfer in is recorded at the board to acknowledge receipt of the cash.

Board Response

State of Montana



Board of Public Education

2500 Broadway
PO Box 200601
Helena, Montana 59620-0601
(406) 444-6576

BOARD MEMBERS

APPOINTED MEMBERS:

Storrs Bishop, Chair
Ennis

Joyce Silverthorne, Vice Chair
Dixon

Ronald Fernelius
Missoula

Barbara Keim
Billings

Sally Listerud
Wolf Point

Wilbur Anderson
Bigfork

Kirk Miller
Havre

EX OFFICIO MEMBERS:

Dick Crofts, Ph.D.
Commissioner of
Higher Education

Nancy Keenan,
Superintendent of
Public Instruction

Marc Racicot, Governor

EXECUTIVE SECRETARY:

Wayne Buchanan, Ph.D.

October 7, 1996

Wayne Guazzo
Audit Manager
Legislative Audit Division
Room 135, State Capitol Building
Helena, MT 59620-1750

Dear Mr. Guazzo:

I have reviewed the draft audit report you submitted to this office. I believe the findings therein accurately reflect the status of our compliance with the laws, rules, and financial regulations pertinent to our agency.

I want to thank you and the folks we worked with in the process of this audit, particularly Emlyn Neuman-Javornik for the consideration you demonstrated during the audit. As usual, the members of this small agency learned more about what we do than the auditors did. Ms. Neuman-Javornik was especially helpful in pointing out ways we could better comply with the applicable rules and be more efficient in the utilization of our resources.

As I suggested to you, I don't believe that we need an exit interview but if there is anything that you feel we need to talk about, I would be happy to do so. My best personal regards to you and your staff.

Sincerely,

A handwritten signature in cursive script that reads "Wayne H. Buchanan".

Wayne Buchanan, Ph.D.
Executive Secretary